

CHEROKEE COUNTY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2013

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CHEROKEE COUNTY

OFFICIALS

(Before January 1, 2013)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Terry Graybill	Board of Supervisors	Jan. 2013
Larry Prunty	Board of Supervisors	Jan. 2013
Dean Schmidt	Board of Supervisors	Jan. 2013
Mark Leeds	Board of Supervisors	Jan. 2015
Jeffrey Simonsen	Board of Supervisors	Jan. 2015
 Kris Glienke	 County Auditor	 Jan. 2013
Roswitha (Hedgie) Brandt	County Treasurer	Jan. 2015
Dawn Miller	County Recorder	Jan. 2015
Dave Scott	County Sheriff	Jan. 2013
Ryan Kolpin	County Attorney	Jan. 2015
Robert S. Hart (through January 2013)	County Assessor	Jan. 2016

(After January 1, 2013)

Mark Leeds	Board of Supervisors	Jan. 2015
Jeffrey Simonsen	Board of Supervisors	Jan. 2015
Rick Mongan	Board of Supervisors	Jan. 2017
Dennis Bush	Board of Supervisors	Jan. 2017
Ginger Walker	Board of Supervisors	Jan. 2017
 Kris Glienke	 County Auditor	 Jan. 2017
Roswitha (Hedgie) Brandt	County Treasurer	Jan. 2015
Dawn Miller	County Recorder	Jan. 2015
Dave Scott	County Sheriff	Jan. 2017
Ryan Kolpin	County Attorney	Jan. 2015
Gregory Zarr (after January 2013)	County Assessor	Jan. 2016

HUNZELMAN, PUTZIER & Co., PLC

CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
JASON K. RAVELING
TAMMY M. CARLSON, C.P.A.
RICHARD R. MOORE, C.P.A. (RETIRED)
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W. J. HUNZELMAN, C.P.A. 1921-1997

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INDEPENDENT AUDITOR'S REPORT

To the Officials of Cherokee County:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cherokee County, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on an auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Cherokee County as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, and the Schedule of Funding Progress for the Retiree Health Plan on pages 6 through 13 and 40 through 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Cherokee County's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2013, on our consideration of Cherokee County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cherokee County's internal control over financial reporting and compliance.

Hummelmaier, Putzier & Co., PLLC

September 24, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Cherokee County provides this Management's Discussion and Analysis of its financial statements. This report contains an overview and analysis of the financial activities for the fiscal year ended June 30, 2013. The following information should be considered in relation to the County's financial statements included in this report.

This is the tenth year that Cherokee County has been required to report all activities on a full accrual basis, as required by the reporting standards of GASB 34. The following comprehensive comparison to fiscal year 2012 makes it more meaningful for the public to understand the County's financial position and results of operations.

2013 FINANCIAL HIGHLIGHTS

- Cherokee County's governmental activities revenues increased approximately \$47,000 or .8% from fiscal year 2012 to fiscal year 2013. Property taxes and other county tax decreased \$221,000 or 4%.
- Cherokee County's overall governmental activities expenses decreased approximately \$37,000 or .3% from fiscal year 2012 to fiscal year 2013. The breakdown by service areas include: public safety and legal services increased approximately \$293,000 or 18%; physical health and social services increased by approximately \$24,000 or 9%; mental health expenditures decreased by approximately \$870,000 or 59%; county environment and education increased approximately \$525,000 or 78%; roads and transportation decreased by approximately \$45,000 or 1%; governmental services to residents increased approximately \$33,000 or 8%; and administration increased approximately \$3,000 or .2%.
- Cherokee County's net position increased 1.2%, or approximately \$359,000, from June 30, 2012 to June 30, 2013.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the County's financial activities.
- The Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of Cherokee County as a whole, and present an overall view of the County's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Cherokee County's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Cherokee County acts solely as an agent or custodian for the benefit of those outside of County government (Agency Funds).
- Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

USING THIS ANNUAL REPORT - (Continued)

- Required Supplementary Information further explains and supports the financial statements with a comparison of the County's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.
- Other Supplementary Information provides detailed information about the nonmajor Special Revenue and the individual Agency Funds.

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

Accounting methods similar to those used in private-sector businesses are used in preparing the County-wide financial statements. The information contained in these reports helps the public to understand if Cherokee County's financial position is better or worse after the fiscal year has ended.

The Statement of Net Position includes all of Cherokee County's assets and liabilities with "net position" being reported as the difference between assets and liabilities. Over time, increases or decreases in the County's net position will indicate if the financial position of the county is improving or deteriorating.

The Statement of Activities includes all of the current year's revenues and expenses. All changes in net position are reported as soon as the change occurs, regardless of when the cash was received or paid. Therefore, revenues and expenditures for some items will be reported in this statement and their resulting cash flows will be reported in future fiscal reports.

Cherokee County's governmental activities are presented in the Statement of Net Position and the Statement of Activities. Governmental activities include public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, and non-program activities. Property tax and state and federal grants finance most of these activities.

Fund Financial Statements

The Fund Financial Statements provide more detailed data about Cherokee County's funds. Funds are used to keep track of sources of funding and spending on particular programs. Most "major" funds are required by state law while the County establishes other funds to control and manage money for specific purposes or to show that it is properly using certain revenues such as federal grants.

Cherokee County has three categories of funds:

1) Governmental Funds account for most of the County's basic services. These focus on how money flows into and out of those funds, and the balances left at year-end that are available for spending. The governmental funds include: 1) the General Fund, and 2) the Special Revenue Funds, such as Mental Health, Rural Services and Secondary Roads. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the County's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance Cherokee County's programs.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures, and changes in fund balances.

2) Proprietary funds account for the County's Internal Service, Employee Group Health Insurance Fund. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the County's various functions.

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES – (Continued)

The required financial statements for proprietary funds include a statement of net position, a statement of revenues, expenses, and changes in fund net position, and a statement of cash flows.

3) Fiduciary funds are used to report assets held in a trust or agency capacity for others which cannot be used to support Cherokee County's own programs.

The required financial statement for fiduciary funds is a statement of fiduciary assets and liabilities.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of financial position. Cherokee County's combined net position was \$31,252,360 for fiscal year 2013. This reflects a \$358,753 (1.2%) increase over fiscal year 2012 net position of \$30,893,607. The analysis that follows focuses on the changes in the net position for governmental activities.

Net Position of Cherokee County's Governmental Activities

	June 30,	
	<u>2013</u>	<u>2012</u>
Current and other assets	\$17,167,706	\$16,763,289
Capital assets	<u>23,309,992</u>	<u>22,905,839</u>
Total assets	<u>40,477,698</u>	<u>39,669,128</u>
Long-term liabilities	3,302,289	3,365,279
Other liabilities	<u>5,923,049</u>	<u>5,410,242</u>
Total liabilities	<u>9,225,338</u>	<u>8,775,521</u>
Net position		
Net investment in capital assets	23,309,992	22,905,839
Restricted	6,374,460	5,683,876
Unrestricted	<u>1,567,908</u>	<u>2,303,892</u>
Total net position	<u>\$31,252,360</u>	<u>\$30,893,607</u>

Net position of Cherokee County's governmental activities increased by \$358,753 compared to fiscal year 2012. The largest portion of Cherokee County's net position is invested in capital assets (e.g., land, infrastructure, buildings, and equipment). Restricted net position represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, are reported at approximately \$1,568,000 as of June 30, 2013.

Changes in Net Position of Cherokee County's Governmental Activities

	Year Ended June 30,	
	<u>2013</u>	<u>2012</u>
Revenues:		
Program revenues:		
Charges for service	\$ 891,549	\$ 995,883
Operating grants, contributions, and restricted interest	3,264,787	3,510,927
Capital grants, contributions, and restricted interest	1,203,459	798,863
General revenues:		
Property tax	4,857,259	5,124,244
Penalty and interest on property tax	24,408	30,529
State tax credits	213,350	185,065
Local option sales tax	536,659	490,372
Unrestricted investment earnings	61,333	69,647
Other general revenues	<u>1,652</u>	<u>22,623</u>
Total revenues	<u>11,054,456</u>	<u>11,228,153</u>
Program expenses:		
Public safety and legal services	1,941,853	1,649,053
Physical health and social services	295,834	271,707
Mental health	595,911	1,466,326
County environment and education	1,198,545	673,597
Roads and transportation	4,580,375	4,625,755
Governmental services to residents	449,756	416,394
Administration	<u>1,633,429</u>	<u>1,630,088</u>
Total expenses	<u>10,695,703</u>	<u>10,732,920</u>
 Increase in net position	 358,753	 495,233
 Net position beginning of year	 <u>30,893,607</u>	 <u>30,398,374</u>
 Net position end of year	 <u>\$31,252,360</u>	 <u>\$30,893,607</u>

Cherokee County reduced the Mental Health levy by 2.8 cents, decreased the General Supplemental by 70.6 cents, and maintained the prior levy rate in the General and Rural Services Funds. This decision, along with a 5.3 percent increase in taxable valuations resulted in a property tax decrease of \$197,823.

INDIVIDUAL MAJOR FUND ANALYSIS

As Cherokee County completed the year, its governmental funds reported a combined fund balance of approximately \$8,092,000, an increase of approximately \$58,000 from last year's approximately \$8,034,000 ending fund balance. The increase in fund balance is attributable to increases in levy rates and taxable valuations resulting in additional tax revenues. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

INDIVIDUAL MAJOR FUND ANALYSIS – (Continued)

- General Fund activities reflect expenditure increases for law enforcement. These expenses had previously been funded from the Rural Basic Fund, however, additional funding of the Cherokee County Solid Waste Commission strained the Rural Basic Fund and Public Safety funding was shifted to the General Fund for one budget cycle. The ending fund balance showed a decrease of approximately \$809,000 from the prior year to approximately \$1,687,000.
- Cherokee County has continued to look for ways to effectively manage the cost of mental health services. Revenues decreased for the Mental Health Fund in Fiscal Year 2013 to approximately \$618,000 and expenditures decreased to approximately \$593,000. The County levied at 100% with a 2.773 cent reduced levy rate of 66.499 cents. The resulting June 30, 2013 fund balance increased to approximately \$133,000.
- Rural Services ending fund balance for fiscal year 2013 was approximately \$228,000, which is a \$54,000 decrease from the prior year's balance of approximately \$282,000.
- Secondary Roads ending fund balance increased by approximately \$888,000 for the year ending June 30, 2013. The prior year fund balance was approximately \$4,880,000 and was increased to an approximate \$5,768,000 fund balance after completion of the 2013 year.
- Other Special Revenue Funds which include County Recorder Records Management, Conservation Land Acquisition Trust, Conservation Education, Resource Enhancement and Protection, County Rural Betterment Fund, Urban Renewal Tax Increment Financing (TIF), Drug Court Grant, County Attorney Recovery Fees, Forfeited Property, and County Case Management are classified as nonmajor special revenue funds. The combined activities of these funds resulted in an increase in fund balance of approximately \$9,000. The ending fund balance for 2013 was approximately \$276,000 compared to the prior year's ending fund balance of approximately \$267,000.

BUDGETARY HIGHLIGHTS

Over the course of the year, Cherokee County amended its budget two times. The first amendment was made on December 24, 2012 by the County Board of Supervisors for the following reasons:

- Increased Intergovernmental Revenues due to pass through funds from ISU Extension (\$14,000) and SIMPCO Hazard Mitigation Plan (\$28,007)
- Protective Services expenses increased for an additional full time 911 Dispatcher position(\$43,690), additional full time jailer position (\$20,000), and office rent for Emergency Operations Center (\$2,500)
- Social Services expenses increased by \$2,500 for DHS office space
- County Environment expenses increased \$108,687 for increased monthly landfill fees and \$300,000 for redemption of a loan extended by the Cherokee County Solid Waste Commission for the 2012 bond payment
- Administrative expenses increased due to pass through funds from ISU Extension (\$14,000) and SIMPCO Hazard Mitigation Plan (\$28,007)

The second amendment was made on May 21, 2013 by the County Board of Supervisors for the following reasons:

- County Environment expenses increased by \$27,000 including \$2,000 for use of donated funds for Conservation Education and \$25,000 for the Martin's Access cabin project

CAPITAL ASSETS

Cherokee County's Capital Assets activity for the year ended June 30, 2013, was as follows:

Capital Assets of Governmental Activities at Year End		
	<u>June 30</u>	
	<u>2013</u>	<u>2012</u>
Governmental activities:		
Capital assets not being depreciated:		
Land	\$ 488,286	\$ 488,286
Construction in progress	858,351	-
Total capital assets not being depreciated	<u>1,346,637</u>	<u>488,286</u>
Capital assets being depreciated/amortized:		
Buildings	4,213,492	4,148,952
Improvements other than buildings	9,750	9,750
Equipment and vehicles	7,040,146	6,695,024
Intangibles	44,304	28,494
Infrastructure, road network	<u>22,696,973</u>	<u>22,195,021</u>
Total capital assets being depreciated/amortized	<u>34,004,665</u>	<u>33,077,241</u>
Less accumulated depreciation/amortization for:		
Buildings	2,033,147	1,958,441
Improvements other than buildings	6,035	5,548
Equipment and vehicles	3,187,582	2,931,489
Intangibles	28,191	24,523
Infrastructure, road network	<u>6,786,355</u>	<u>5,739,687</u>
Total accumulated depreciation/amortization	<u>12,041,310</u>	<u>10,659,688</u>
Total capital assets being depreciated/amortized, net	<u>21,963,355</u>	<u>22,417,553</u>
Governmental activities capital assets, net	<u>\$23,309,992</u>	<u>\$22,905,839</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND LEVY RATES

Cherokee County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2014 budget, tax rates, and the fees that will be charged for various county services.

Continued concerns about potential funding cuts from the State in addition to standard cost of living increases for wages and benefits are the baseline for the Cherokee County Board of Supervisors' decision in setting tax rates for the 2014 fiscal year. Continued increases in taxable valuations and the desire to maintain solid ending fund balances were the basis for the Board's decision to increase levy rates and overall taxation of properties.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND LEVY RATES – (Continued)

The fiscal year 2014 budget certified tax revenues, broken down by the major funds that Cherokee County receives are as follows:

	<u>Fiscal Year 2014</u> <u>Dollars Certified</u>	<u>Fiscal Year 2013</u> <u>Dollars Certified</u>	<u>Fiscal Year 2012</u> <u>Dollars Certified</u>	<u>Fiscal Year 2011</u> <u>Dollars Certified</u>
General Fund	\$ 2,514,400	\$ 2,385,914	\$ 2,256,474	\$ 2,158,148
General Supplemental Fund	302,310	110,277	559,651	339,138
Mental Health Fund	453,504	453,317	446,601	446,404
Rural Basic Fund	<u>2,057,323</u>	<u>1,676,203</u>	<u>1,560,808</u>	<u>1,432,500</u>
Total Taxes Assessed	<u>\$ 5,327,537</u>	<u>\$ 4,625,711</u>	<u>\$ 4,823,534</u>	<u>\$ 4,376,190</u>

Levy Rates (based on \$/\$1,000 taxable valuation) for Cherokee County have been:

	<u>Fiscal Year 2014</u> <u>Levy Rates</u>	<u>Fiscal Year 2013</u> <u>Levy Rates</u>	<u>Fiscal Year 2012</u> <u>Levy Rates</u>	<u>Fiscal Year 2011</u> <u>Levy Rates</u>
General Fund	\$ 3.50	\$ 3.50	\$ 3.50	\$ 3.50
General Supplemental Fund	.42081	.16177	.86807	.55
Mental Health Fund	.63127	.66499	.69272	.72396
Rural Basic Fund	3.95	3.4	3.4	3.25

Iowa Code limits the General Fund levy rate to \$3.50 per \$1,000 of taxable value. A majority of Iowa Counties are at that limit and levy in the General Supplemental Fund which allows them to exceed the \$3.50 general basic levy for certain expenditures which include employee benefits (i.e. health insurance, FICA, and IPERS), county risk management expenditures, election costs, and court ordered settlements. The Rural Basic levy rate limit is \$3.95 per \$1,000 of taxable value. Each year, more counties are reaching that limit and are using the Rural Supplemental levy as allowed by Iowa law for expenditures such as employee benefits and aviation authority contributions.

Cherokee County's taxable valuations reflect a slight increase for fiscal year 2013:

	<u>Fiscal Year 2014</u> <u>Valuations</u>	<u>Fiscal Year 2013</u> <u>Valuations</u>	<u>Fiscal Year 2012</u> <u>Valuations</u>	<u>Fiscal Year 2011</u> <u>Valuations</u>
Rural Taxable	\$ 553,734,304	\$ 524,206,704	\$ 490,951,714	\$ 470,375,624
Urban Taxable	<u>202,130,260</u>	<u>193,336,241</u>	<u>190,283,575</u>	<u>180,254,292</u>
Total Taxable Valuation	<u>\$ 755,864,564</u>	<u>\$ 717,542,945</u>	<u>\$ 681,235,289</u>	<u>\$ 650,629,916</u>

Cherokee County has been fortunate that there have been slight increases in property valuations in past years to offset increases in county departmental expenditures. The County increased the General Basic Supplemental and Rural Basic levies for fiscal year 2012 while utilizing carryover fund balances to absorb the County's slight annual increase in budgetary expenses. Previous methods of spending down reserves have now reduced fund balances to basic levels needed to conduct normal business cash flow and have resulted in potential increases in levy rates to support expenditures of future budgets.

The fiscal year 2014 budget projects a solid financial climate as the result of conservative budget increases and tax levy increases. The General Basic Supplemental levy will be increased by 25.904 cents, the Mental Health levy decreased by 3.372 cents, and the Rural Basic levy will be increased by 55 cents. It is the desire of the County to maintain a fiscally sound fund balance to support critical services to local citizens, particularly with predictions of continued reductions in State funding.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND LEVY RATES – (Continued)

Looking forward into future budget years, Cherokee County will need to address increasing wage related benefits with potential levy rate increases in the Rural Basic levy and continuation of the General Basic Supplemental levy to maintain a desired 25% ending fund balance. This ending fund balance is needed to cover expenses incurred during the first quarter of the fiscal year, before revenues are received via property tax payments.

Cherokee County anticipates a gradual increase in valuations in the upcoming budgets; however, it will present difficult balancing of covering mandated services and expenditures while maintaining a conservative attitude with the tax levy rates.

CONTACTING CHEROKEE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide Cherokee County's citizens, taxpayers, customers, and creditors with a general overview of Cherokee County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Cherokee County Auditor's Office, 520 West Main, Cherokee, Iowa.

CHEROKEE COUNTY
STATEMENT OF NET POSITION
JUNE 30, 2013

Exhibit A

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash and pooled investments	\$ 7,208,818
Receivables:	
Property tax:	
Delinquent	3,837
Succeeding year	5,475,646
Interest and penalty on property tax	8,715
Accounts	22,471
Accrued interest	1,000
Notes receivable	2,979,237
Due from other governments	441,668
Inventories	701,311
Prepaid expenses	325,003
Land	488,286
Construction in progress	858,351
Infrastructure, property and equipment, net of accumulated depreciation/amortization	<u>21,963,355</u>
Total assets	<u>40,477,698</u>
 <u>LIABILITIES</u>	
Accounts payable	251,082
Accrued interest payable	4,237
Due to other governments	175,124
Deferred revenue:	
Succeeding year property tax	5,475,646
Other	16,960
Long-term liabilities:	
Portion due or payable within one year:	
General obligation bonds	125,000
Compensated absences	221,599
Portion due or payable after one year:	
General obligation bonds	2,850,000
Net OPEB liability	<u>105,690</u>
Total liabilities	<u>9,225,338</u>
 <u>NET POSITION</u>	
Net investment in capital assets	23,309,992
Restricted for:	
Supplemental levy purposes	60,728
Mental health purposes	129,279
Rural service purposes	228,102
Secondary roads purposes	5,680,216
Other purposes	276,135
Unrestricted	<u>1,567,908</u>
Total net position	<u>\$ 31,252,360</u>

See notes to financial statements.

CHEROKEE COUNTY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

Exhibit B

	Expenses	Charges for Service	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
			Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest	
Functions/Programs:					
Governmental activities:					
Public safety and legal services	\$ 1,941,853	\$ 306,490	\$ 116,025	\$ -	\$ (1,519,338)
Physical health and social services	295,834	7,252	123,902	-	(164,680)
Mental health	595,911	7,308	157,656	-	(430,947)
County environment and education	1,198,545	52,873	9,982	-	(1,135,690)
Roads and transportation	4,580,375	211,548	2,854,403	1,203,459	(310,965)
Governmental services to residents	449,756	257,789	2,819	-	(189,148)
Administration	1,633,429	48,289	-	-	(1,585,140)
Total	<u>\$ 10,695,703</u>	<u>\$ 891,549</u>	<u>\$ 3,264,787</u>	<u>\$ 1,203,459</u>	<u>(5,335,908)</u>
General Revenues:					
Property and other county tax levied for:					
General purposes					4,689,740
Penalty and interest on property tax					24,408
State tax credits					213,350
Local option sales tax					536,659
Tax increment financing					167,519
Unrestricted investment earnings					61,333
Miscellaneous					<u>1,652</u>
Total general revenues					<u>5,694,661</u>
Change in net position					358,753
Net position beginning of year					<u>30,893,607</u>
Net position end of year					<u>\$ 31,252,360</u>

See notes to financial statements.

CHEROKEE COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

Exhibit C

	Special Revenue					
	General	Mental Health	Rural Services	Secondary Roads	Nonmajor	Total
<u>ASSETS</u>						
Cash and pooled investments	\$ 1,557,831	\$ 312,673	\$ 165,841	\$ 4,752,196	\$ 234,837	\$ 7,023,378
Receivables:						
Accounts	17,818	-	-	1,953	2,700	22,471
Property tax:						
Delinquent	2,788	448	601	-	-	3,837
Succeeding year	2,795,800	450,138	2,041,231	-	188,477	5,475,646
Interest and penalty on property tax	8,715	-	-	-	-	8,715
Accrued interest	1,000	-	-	-	-	1,000
Due from other governments	88,898	7,018	61,769	243,686	40,297	441,668
Prepaid expense	174,712	1,617	-	136,695	-	313,024
Inventories	-	-	-	701,311	-	701,311
Total assets	<u>\$ 4,647,562</u>	<u>\$ 771,894</u>	<u>\$ 2,269,442</u>	<u>\$ 5,835,841</u>	<u>\$ 466,311</u>	<u>\$ 13,991,050</u>
<u>LIABILITIES AND FUND BALANCES</u>						
Liabilities:						
Accounts payable	\$ 150,188	\$ 16,759	\$ 109	\$ 67,333	\$ 1,678	\$ 236,067
Due to other governments	3,015	171,942	-	147	20	175,124
Deferred revenue:						
Succeeding year property tax	2,795,800	450,138	2,041,231	-	188,477	5,475,646
Other	11,503	448	601	-	-	12,552
Total liabilities	<u>2,960,506</u>	<u>639,287</u>	<u>2,041,941</u>	<u>67,480</u>	<u>190,175</u>	<u>5,899,389</u>
Fund balances:						
Nonspendable:						
Inventories	-	-	-	701,311	-	701,311
Prepays	174,712	1,617	-	136,695	-	313,024
Restricted for:						
Supplemental levy purposes	60,428	-	-	-	-	60,428
Mental health purposes	-	130,990	-	-	-	130,990
Rural services purposes	-	-	227,501	-	-	227,501
Secondary roads purposes	-	-	-	4,930,355	-	4,930,355
Other purposes	-	-	-	-	276,136	276,136
Unassigned	1,451,916	-	-	-	-	1,451,916
Total fund balances	<u>1,687,056</u>	<u>132,607</u>	<u>227,501</u>	<u>5,768,361</u>	<u>276,136</u>	<u>8,091,661</u>
Total liabilities and fund balances	<u>\$ 4,647,562</u>	<u>\$ 771,894</u>	<u>\$ 2,269,442</u>	<u>\$ 5,835,841</u>	<u>\$ 466,311</u>	<u>\$ 13,991,050</u>

See notes to financial statements.

CHEROKEE COUNTY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

Exhibit D

hibit E

Total governmental fund balances	\$ 8,091,661	
Amounts reported for governmental activities in the Statement of Net Position are different because:		
		<u>otal</u>
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$35,351,302 and the accumulated depreciation/amortization is \$12,041,310.	23,309,992	92,024
		24,408
		00,183
Other long-term assets are not available to pay current year expenditures and, therefore, are deferred in the governmental funds.	12,553	78,165
		44,155
		64,582
The Internal Service Fund is used by management to charge the costs of the partial self funding of the County's health insurance benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included with governmental activities in the Statement of Net Position.	165,444	63,958
		<u>67,475</u>
Long-term liabilities, including bonds payable, compensated absences payable other postemployment benefits payable, and accrued interest payable are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(327,290)</u>	06,297
		94,137
		93,479
		70,097
		62,004
		32,873
Net position of governmental activities	<u>\$31,252,360</u>	36,573
		<u>14,486</u>
		<u>09,946</u>
		<u>57,529</u>
		706
		<u>-</u>
		<u>706</u>
		58,235
		<u>033,426</u>
		<u>091,661</u>

See notes to financial statements.

CHEROKEE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

Exhibit F

Net change in fund balances - Total governmental funds \$ 58,235

Amounts reported for governmental activities in the Statement of
 Activities are different because:

Governmental funds report capital outlays as expenditures while
 governmental activities report depreciation/amortization expense to allocate
 those expenditures over the life of the assets. Capital outlay expenditures and
 contributed capital assets exceeded depreciation/amortization expense in the
 current year as follows:

Expenditures for capital assets	\$ 1,090,395	
Capital assets contributed by the Iowa Department of Transportation	877,992	
Depreciation/amortization expense	<u>(1,513,111)</u>	455,276

In the Statement of Activities, the net effect of various transactions involving
 capital assets (i.e., sales and trade-ins) is reflected in depreciation/amortization
 expense, whereas the governmental funds report any proceeds from the
 disposition of capital assets as an increase in financial resources. (51,121)

Because some revenues will not be collected for several months after the
 County's year end, they are not considered available revenues and are
 deferred in the governmental funds, as follows:

Property tax	1,858	
Other	<u>2,439</u>	4,297

Some expenses reported in the Statement of Activities do not require the
 use of current financial resources and, therefore, are not reported as
 expenditures in the governmental funds, as follows:

Compensated absences	(30,346)	
Other post employment benefits	<u>(31,664)</u>	(62,010)

The Internal Service Fund is used by management to charge the costs of the
 partial self-funding of the County's health insurance benefit plan to individual
 funds. The change in net position of the Internal Service Fund is reported with
 governmental activities. (45,924)

Change in net position of governmental activities \$ 358,753

CHEROKEE COUNTY
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2013

Exhibit G

Internal Service-
Employee
Group Health

ASSETS

Cash and cash equivalents	\$ 185,440
Prepaid expense	<u>50,017</u>
Total assets	235,457

LIABILITIES

Accounts Payable	15,014
Deferred revenue	<u>54,999</u>
Total liabilities	70,013

NET POSITION

Unrestricted	<u>\$ 165,444</u>
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See notes to financial statements.

CHEROKEE COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2013

Exhibit H

		<u>Internal Service- Employee Group Health</u>
Operating revenues:		
Reimbursements from operating funds	\$ 476,360	
Reimbursements from employees	<u>177,318</u>	\$ 653,678
Operating expenses:		
Insurance premiums	690,531	
Administrative fees	<u>9,854</u>	<u>700,385</u>
Operating loss		(46,707)
Non-operating revenues:		
Interest income		<u>783</u>
Net loss		(45,924)
Net position beginning of year		<u>211,368</u>
Net position end of year		<u>\$ 165,444</u>

See notes to financial statements.

CHEROKEE COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2013

Exhibit I

Internal Service-
Employee
Group Health

Cash flows from operating activities:

Cash received from operating fund reimbursements	\$ 476,116
Cash received from employees and others	177,318
Cash payments to suppliers for services	<u>(688,791)</u>
Net cash used by operating activities	(35,357)

Cash flows from investing activities:

Interest on investments	<u>783</u>
-------------------------	------------

Net decrease in cash and cash equivalents (34,574)

Cash and cash equivalents at beginning of year 220,014

Cash and cash equivalents at end of year \$ 185,440

Reconciliation of operating loss to net cash
used by operating activities:

Operating loss	\$ (46,707)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Decrease in deferred revenue	(244)
Increase in accounts payable	15,014
Increase in prepaid expenses	<u>(3,420)</u>

Net cash used by operating activities \$ (35,357)

See notes to financial statements.

CHEROKEE COUNTY
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
JUNE 30, 2013

Exhibit J

ASSETS

Cash and pooled investments:

County Treasurer

\$1,126,860

Other County officials

72,254

Receivables:

Property tax:

Delinquent

18,590

Succeeding year

13,488,108

Accounts

5,670

Due from other governments

50,915

Special assessments

379,250

Total assets

15,141,647

LIABILITIES

Accounts payable

2,103

Trusts payable

15,974

Due to other governments

15,123,570

Total liabilities

15,141,647

Net Position

\$ -

See notes to financial statements.

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cherokee County is a political subdivision of the State of Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The County operates under the Board of Supervisors form of government. Elections are on a partisan basis. Other elected officials operate independently with the Board of Supervisors. These officials are the Auditor, Treasurer, Recorder, Sheriff, and Attorney. The County provides numerous services to citizens, including law enforcement, health and social services, parks and cultural activities, planning and zoning, roadway construction and maintenance, and general administrative services.

The County's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Cherokee County has included all funds, organizations, agencies, boards, commissions, and authorities. The County has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the County. The County has no component units that meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The County participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Cherokee County Assessor's Conference Board, Cherokee County E911 Service Board, Plains Area Mental Health, Cherokee County Solid Waste Commission, and the Northwest Iowa Multi-county Regional Juvenile Detention Center. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship, if any, with the organization and, as such, are reported in the Agency Funds of the County.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Position (previously referred to as net assets) and the Statement of Activities report information on all of the nonfiduciary activities of the County. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues, and other nonexchange transactions.

The Statement of Net Position presents the County's nonfiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories.

Net investment in capital assets consists of capital assets net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions, and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The County reports the following major governmental funds:

The General Fund is the main operating fund of the County. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges, and the capital improvement costs not paid from other funds.

Special Revenue:

The Mental Health Fund is used to account for property tax and other revenues to be used to fund mental health, mental retardation, and developmental disabilities services.

The Rural Services Fund is used to account for property tax and other revenues to provide services which are primarily intended to benefit those persons residing in the county outside of incorporated city areas.

The Secondary Roads Fund is used to account for the road use tax allocation from the State of Iowa, required transfers from the Special Revenue, Rural Services Funds and other revenues to be used for secondary road construction and maintenance.

Additionally, the County reports the following funds:

Proprietary Fund - An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the County and provided to other departments or agencies on a cost reimbursement basis.

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

Fiduciary Funds - Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units, and/or other funds.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when they occur and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the County considers property tax revenues to be available if they are collected within 60 days after year end. A one-year availability period is used for revenue recognition for all other governmental fund revenues.

Property tax, intergovernmental revenues (shared revenues, grants, and reimbursements from other governments), and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the County's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the County's policy is to pay the expenditure from restricted fund balance and then from less-restrictive classifications – committed, assigned, and then unassigned fund balances.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's Internal Service Fund are charges to customers for sales and services. Operating expenses for internal service funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus and Basis of Accounting - (Continued)

The County maintains its financial records on the cash basis. The financial statements of the County are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities, and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Cash Equivalents, and Pooled Investments - The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund unless otherwise provided by law. Investments are stated at fair value except for non-negotiable certificates of deposit, which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the County Board of Supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year become effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2011, assessed property valuations; is for the tax accrual period July 1, 2012, through June 30, 2013; and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2012.

Interest and Penalty on Property Tax Receivable - Interest and penalty on property tax receivable represents the amount of interest and penalty that was due and payable but has not been collected.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants, and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method. Inventories consist of expendable supplies held for consumption. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Assets, Liabilities, and Fund Equity - (Continued)

Capital Assets - Capital assets, which include property, equipment and vehicles, intangibles, and infrastructure assets (e.g., roads, bridges, curbs, gutters, sidewalks, and similar items which are immovable and of value only to the County), are reported in the governmental activities column in the government-wide Statement of Net Position. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Infrastructure	\$ 65,000
Buildings	25,000
Equipment and vehicles	10,000
Intangibles	5,000

Capital assets of the County are depreciated/amortized using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	15-100
Infrastructure	12-65
Equipment and vehicles	5-25
Intangibles	5

Due to Other Governments - Due to other governments represents taxes and other revenues collected by the County and payments for services which will be remitted to other governments.

Trusts Payable - Trusts payable represents amounts due to others which are held by various County officials in fiduciary capacities until the underlying legal matters are resolved.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue consists of the succeeding year property tax receivable as well as delinquent property tax receivable not collected within sixty days after year end.

Deferred revenue in the Statement of Net Position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and contributions from external customers in the Employee Group Health Fund.

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Assets, Liabilities, and Fund Equity - (Continued)

Compensated Absences - County employees accumulate a limited amount of earned but unused vacation and compensatory hours for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide, proprietary fund, and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2013. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Mental Health, and Secondary Roads Funds.

Long-Term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities Statement of Net Position.

Fund Equity - In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws; or are imposed by law through constitutional provisions or enabling legislation.

Committed - Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the Board of Supervisors through ordinance or resolution approved prior to year end. Committed amounts cannot be used for any other purpose unless the Board of Supervisors removes or changes the specified use by taking the same action it employed to commit those amounts.

Assigned - Amounts the Board of Supervisors intend to use for specific purposes.

Unassigned - All amounts not included in the preceding classifications.

Net Position - The net position of the Internal Service, Employee Group Health Fund is designated for anticipated future catastrophic losses of the County.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

2. CASH, CASH EQUIVALENTS, AND POOLED INVESTMENTS

The County's deposits in banks at June 30, 2013, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The County is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Supervisors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The County had no investments meeting the disclosure requirements of Government Accounting Standards Board Statement Number 3.

Interest rate risk - The County's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the County.

3. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2013, is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue: Secondary Roads	Special Revenue: Rural Services	<u>\$ 1,485,000</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2013 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated/amortized:				
Land	\$ 488,286	\$ -	\$ -	\$ 488,286
Construction in progress	-	1,360,303	(501,952)	858,351
Total capital assets not being depreciated/amortized	<u>488,286</u>	<u>1,360,303</u>	<u>(501,952)</u>	<u>1,346,637</u>
Capital assets being depreciated/amortized:				
Buildings	4,148,952	64,540	-	4,213,492
Improvements other than buildings	9,750	-	-	9,750
Equipment and vehicles	6,695,024	527,732	(182,610)	7,040,146
Intangibles	28,494	15,810	-	44,304
Infrastructure, road network	22,195,021	501,952	-	22,696,973
Total capital assets being depreciated/amortized	<u>33,077,241</u>	<u>1,110,034</u>	<u>(182,610)</u>	<u>34,004,665</u>

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

4. CAPITAL ASSETS - (Continued)

Less accumulated depreciation/amortization for:

Buildings	1,958,441	74,706	-	2,033,147
Improvements other than buildings	5,548	487		6,035
Equipment and vehicles	2,931,489	387,582	(131,489)	3,187,582
Intangibles	24,523	3,668	-	28,191
Infrastructure, road network	5,739,687	1,046,668	-	6,786,355
Total accumulated depreciation/amortization	10,659,688	1,513,111	(131,489)	12,041,310
Total capital assets being depreciated/amortized, net	22,417,553	(403,077)	(51,121)	21,963,355
Governmental activities capital assets, net	<u>\$22,905,839</u>	<u>\$ 957,226</u>	<u>\$ (553,073)</u>	<u>\$23,309,992</u>

Depreciation/amortization expense was charged to the following functions:

Governmental activities:

Public safety and legal services	\$ 53,431
Physical health and social services	-
Mental health	3,274
County environment and education	22,684
Roads and transportation	1,365,119
Governmental services to residents	11,607
Administration	56,996
Total depreciation/amortization expense--governmental activities	<u>\$ 1,513,111</u>

5. DUE TO OTHER GOVERNMENTS

The County purchases services from other governmental units and also acts as a fee and tax collection agent for various governmental units. The Agency Fund collections also include accruals of property tax for the succeeding year. The tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments is as follows:

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
General	Services	\$ 3,015
Special Revenue:		
Mental Health	Services	\$ 171,942
Secondary Roads		147
Drug Court Grant		<u>20</u>
Total for governmental funds		<u>\$ 175,124</u>
Agency:		
County Assessor	Collections	\$ 1,073,255
Schools		8,927,041
Community Colleges		532,510
Corporations		3,219,507
Townships		314,155
Auto License and Use Tax		297,290
Agricultural Extension		172,390
All other		<u>587,422</u>
Total for agency funds		<u>\$ 15,123,570</u>

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

6. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2013, is as follows:

	Balance, beginning of year	Increases	Decreases	Balance, end of year	Due within one year
General obligation bonds	\$ 3,100,000	\$ -	\$ 125,000	\$ 2,975,000	\$ 125,000
Compensated absences	191,253	30,346	-	221,599	221,599
Net OPEB liability	74,026	31,664	-	105,690	-
Total	<u>\$ 3,365,279</u>	<u>\$ 62,010</u>	<u>\$ 125,000</u>	<u>\$ 3,302,289</u>	<u>\$ 346,599</u>

Notes Payable

During the year ended June 30, 2012 Cherokee County issued \$2,775,000 of general obligation refunding capital loan notes and an additional \$445,000 general obligation capital loan notes for Cherokee County Sanitary Landfill and Recycling Center (Landfill). The proceeds from the refunding capital loan notes were used to pay costs of refunding the existing general obligation indebtedness of the County for the Landfill. The proceeds of the additional capital loan notes were used to pay costs of constructing works and facilities for the operation of the landfill. The County has a separate agreement with the Landfill that requires the Landfill to make all principal and interest payments on these notes. As a result, there is a note receivable reflected on the County's statement of net position that is offset by a corresponding liability for the principal and interest payable on this debt.

The future principal payments are as follows:

Year Ending <u>June 30,</u>	Loan <u>Principal</u>
2014	\$ 125,000
2015	130,000
2016	130,000
2017	135,000
2018	135,000
2019-2031	<u>2,320,000</u>
	<u>\$2,975,000</u>

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

7. PENSION AND RETIREMENT BENEFITS

The County contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, IA, 50306-9117.

Most regular plan members are required to contribute 5.78% of their annual covered salary and the County is required to contribute 8.67% of annual covered salary. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The County's contribution to IPERS for the years ended June 30, 2013, 2012, and 2011, were \$306,474, \$262,120, and \$217,331, respectively, equal to the required contributions for each year.

8. RISK MANAGEMENT

Cherokee County is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 679 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials' liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claim expenses, and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's contributions to the Pool for the year ended June 30, 2013, were \$112,560.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$15,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location, with excess coverage reinsured by Lexington Insurance Company.

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

8. RISK MANAGEMENT- (Continued)

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2013, no liability has been recorded in the County's financial statements. As of June 30, 2013, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by the amount of capital distributions previously received by the withdrawing member and an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The County also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$5,000,000 and \$100,000, respectively, except the amount of public official blanket bond coverage for the Sheriff and Treasurer is \$150,000 and \$100,000, respectively. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

9. EMPLOYEE HEALTH INSURANCE PLAN

Cherokee County entered into an administrative services agreement with Employee Benefit Systems to administer the employee partial self-funded health plan. Monthly payments of service fees and plan contributions are recorded as expenditures in the operating funds at the time of payment to the Internal Service, Employee Partial Self-Funded Health Plan Fund maintained by the County Treasurer. Under the agreement, deductible and coinsurance expenses are processed by Employee Benefit Systems with payments from the Internal Service, Employee Partial Self-Funded Health Plan Fund. The employer sponsors a group insurance policy which provides comprehensive hospital and medical coverage for eligible employees and, if elected, their spouses and dependents. Under the partial self-funded plan, the Plan will reimburse an eligible employee for a portion of the deductible and coinsurance expenses under the contract.

10. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description. The County operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees, and their spouses. There are 78 active members and no retired members in the plan.

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

10. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - (Continued)

Plan Description – (Continued)

The medical/prescription drug benefits are provided through a partially self-funded medical plan administered by Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy. The contribution requirements of plan members are established and may be amended by the County. Retirees pay the full premium. The County currently finances the retiree benefit plan on a pay-as-you-go basis.

The required contribution is based on projected pay-as-you-go financing. Retirees receiving benefits have required monthly contributions of:

	<u>Single</u>	<u>Family</u>
Health Insurance	\$ 472.00	\$ 1,150.00

Annual OPEB Cost and Net OPEB Obligation. The County's annual OPEB cost is calculated based on the annual required contribution (ARC) of the County, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the County's annual OPEB cost for the year ended June 30, 2013, the amount actually contributed to the plan, and changes in the County's net OPEB obligation:

Annual required contribution	\$ 32,878
Interest on net OPEB obligation	3,331
Adjustment to annual required contribution	<u>(4,545)</u>
Annual OPEB cost	31,664
Contributions made	<u>-</u>
Increase in net OPEB obligation	31,664
Net OPEB obligation beginning of year	<u>74,026</u>
Net OPEB obligation end of year	<u>\$ 105,690</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2013.

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2013 are summarized as follows:

<u>Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u>
June 30, 2011	\$ 31,513	32.6%	\$ 42,806
June 30, 2012	\$ 31,220	0.0%	\$ 74,026
June 30, 2013	\$ 31,664	0.0%	\$ 105,690

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

10. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - (Continued)

Funding Status and Funding Progress. As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, the actuarial accrued liability was \$211,481, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$211,481. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3,189,633 and the ratio of the UAAL to covered payroll was 6.6%. As of June 30, 2013, there were no trust fund assets.

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2012 actuarial valuation date, the alternative measurement method was used. The actuarial assumption includes a 4.5% discount rate based on the County's funding policy. The projected annual medical trend rate is 7%. The ultimate medical trend is 5%. The medical trend rate is reduced 1% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender specific basis. Annual retirement and termination probabilities were based on 50% for active currently electing coverage.

Projected claim costs of the medical plan are \$1,034 per month for retirees less than age 65. The salary increase rate was assumed to be 2% per year. The UAAL is being amortized as a level dollar amount on an open basis over 30 years.

11. INTERGOVERNMENTAL AGREEMENT

The County participates in an agreement with Cherokee County Solid Waste Commission, a political subdivision created under Chapter 28E of the Code of Iowa. The purpose of the Commission includes providing economic disposal of solid waste produced or generated within the member county and municipalities. Payments to that commission totaled \$572,259 during the year ended June 30, 2013.

State and federal laws and regulations require the Commission to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The total costs to the Commission have been estimated at \$2,311,876 as of June 30, 2012, and the portion of the liability that has been recognized is \$979,591. The Commission has begun to accumulate resources to fund these costs, and at June 30, 2012, deposits of \$456,299 are restricted for these purposes. The local government guaranty was used in prior years by the Commission to demonstrate financial assurance for post-closure care costs. The Commission obtained the local government guaranty from Cherokee County on June 10, 1997. No estimate has been made as to the effect of possible future assessments to the County.

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

12. DEVELOPMENT AGREEMENTS

The County has entered into development agreements to assist in urban renewal projects.

Under the first agreement, the incremental taxes to be received by the County under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of thirteen years beginning with the tax year in which the property taxes on the completed value of the improvements are first paid. The total amount that will be rebated over the thirteen year period under the development and rebate agreement cannot be determined. The amount to be rebated each year will be 65% of the property taxes calculated. During the year ended June 30, 2013, the County rebated \$123,797 of incremental taxes to the developer. No bonds or notes were issued for this construction project.

Under the second agreement, the incremental taxes to be received by the County under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of fifteen years beginning with the tax year in which the property taxes on the completed value of the improvements are first paid. The total amount that will be rebated over the fifteen year period under the development and rebate agreement is not to exceed \$575,000. The amount to be rebated each year will be 75% of the property taxes calculated. During the year ended June 30, 2013, the County rebated \$43,722 of incremental taxes to the developer. No bonds or notes were issued for this construction project.

Under the third agreement, the County agreed to abate incremental taxes to be received by the County under Chapter 404 of the Code of Iowa from the developer in exchange for infrastructure improvements constructed by the developer as set forth in the urban revitalization plan. The total amount that will be abated over the ten year period under the development and abatement agreement cannot be determined. The amount to be abated each year will be 75% of the incremental value. No bonds or notes were issued for this construction project.

Under the fourth agreement, the incremental taxes to be received by the County under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of ten years beginning with the tax year in which the property taxes on the completed value of the improvements are first paid. The total amount that will be rebated over the ten year period under the development and rebate agreement is not to exceed \$415,750. The amounts to be rebated each year will be 75% of the property taxes calculated. No bonds or notes were issued for this construction project.

13. COMMITMENTS

The County has entered into the following contracts which were not completed as of June 30, 2013:

	Total	Costs	Remaining
	Contract	Incurred	Commitment
		As of	As of
<u>Project</u>	<u>Amount</u>	<u>6-30-13</u>	<u>6-30-13</u>
Bridge project	\$ 479,933	\$ 2,910	\$ 477,023

The balance remaining at June 30, 2013, will be paid as work on the project progresses.

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

14. JUVENILE DETENTION CENTER

The County participates in Northwest Iowa Multi-county Regional Juvenile Detention Center, a jointly governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of the Center is to establish and maintain a juvenile detention facility and related services. The Center does not determine capital allocations of the equity interest for individual participating jurisdictions. The Center issues separate financial statements on the accrual basis and the transactions of the Center are not included in the financial statements of the County.

The Center's activity for the fiscal year ending June 30, 2012, which is the latest information available, is summarized as follows:

Net position, beginning of year	\$ 313,665
Revenues	884,848
Expenses	<u>942,967</u>
Net position, end of year	<u>\$ 255,546</u>

The financial statements of the Center are available at the Center's administrative office in Cherokee, Iowa.

15. OPERATING LEASE

The County has two leases. The Auditor's office leases a postage machine and the County Attorney's office leases a copy machine. Rental expense incurred for the leases was \$9,890 for the year ended June 30, 2013. Minimum amounts payable under these operating leases are as follows:

<u>Year ending</u> <u>June 30,</u>	<u>County</u> <u>Auditor</u>	<u>County</u> <u>Attorney</u>	<u>Total Minimum</u> <u>Lease Payments</u>
2014	\$5,166	\$3,002	\$8,168
2015	-	3,002	3,002
2016	-	3,002	3,002
2017	-	1,501	1,501

16. CONTINGENCIES

There are currently several claims and lawsuits against the County seeking damages for various reasons. The outcome and eventual liability of the County, if any, from these is not known at this time. County officials believe the outcome of these matters will not have a material effect on the County's financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CHEROKEE COUNTY
BUDGETARY COMPARISON
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN BALANCES – BUDGET
AND ACTUAL (CASH BASIS) – ALL GOVERNMENTAL FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2013

	<u>Actual</u>	<u>Budgeted Amounts</u>		<u>Final to Actual Variance</u>
		<u>Original</u>	<u>Final</u>	
Receipts:				
Property and other County tax	\$5,388,912	\$5,376,933	\$5,376,933	\$ 11,979
Interest and penalty on property tax	24,439	-	-	24,439
Intergovernmental	3,842,230	5,068,830	5,110,837	(1,268,607)
Licenses and permits	78,328	63,465	63,465	14,863
Charges for service	339,082	276,975	276,975	62,107
Use of money and property	64,519	75,090	75,090	(10,571)
Miscellaneous	215,269	155,767	155,767	59,502
Total receipts	<u>9,952,779</u>	<u>11,017,060</u>	<u>11,059,067</u>	<u>(1,106,288)</u>
Disbursements:				
Public safety and legal services	1,903,175	1,976,088	2,042,278	139,103
Physical health and social services	288,109	363,062	365,562	77,453
Mental health	697,017	1,615,906	1,615,906	918,889
County environment and education	1,169,206	754,971	1,190,658	21,452
Roads and transportation	3,837,890	4,074,950	4,074,950	237,060
Governmental services to residents	433,804	508,513	508,513	74,709
Administration	1,436,007	1,682,109	1,724,116	288,109
Capital projects	494,951	1,560,000	1,560,000	1,065,049
Total disbursements	<u>10,260,159</u>	<u>12,535,599</u>	<u>13,081,983</u>	<u>2,821,824</u>
Excess (deficiency) of receipts over disbursements	(307,380)	(1,518,539)	(2,022,916)	1,715,536
Other financing sources, net	<u>2,019</u>	<u>2,500</u>	<u>2,500</u>	<u>(481)</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(305,361)	(1,516,039)	(2,020,416)	1,715,055
Balance beginning of year	<u>7,328,739</u>	<u>6,659,014</u>	<u>6,659,014</u>	<u>669,725</u>
Balance end of year	<u>\$7,023,378</u>	<u>\$5,142,975</u>	<u>\$4,638,598</u>	<u>\$2,384,780</u>

See accompanying independent auditor's report.

CHEROKEE COUNTY
BUDGETARY COMPARISON SCHEDULE - BUDGET
TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2013

	<u>Governmental Funds</u>		
	<u>Cash</u>	<u>Accrual</u>	<u>Modified</u>
	<u>Basis</u>	<u>Adjustments</u>	<u>Accrual</u>
			<u>Basis</u>
Revenues	\$ 9,952,779	\$ 14,696	\$ 9,967,475
Expenditures	<u>10,260,159</u>	<u>(350,213)</u>	<u>9,909,946</u>
Net	(307,380)	364,909	57,529
Other financing sources, net	2,019	(1,313)	706
Beginning fund balances	<u>7,328,739</u>	<u>704,687</u>	<u>8,033,426</u>
Ending fund balances	<u>\$ 7,023,378</u>	<u>\$ 1,068,283</u>	<u>\$ 8,091,661</u>

See accompanying independent auditor's report.

CHEROKEE COUNTY
NOTES TO REQUIRED SUPPLEMENTARY
INFORMATION - BUDGETARY REPORTING
JUNE 30, 2013

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service Fund, and Agency Funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon ten major classes of expenditures known as functions, not by fund. These ten functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service, and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund and the Special Revenue Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, two budget amendments increased budgeted disbursements by \$546,384. These budget amendments are reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office by the County Agricultural Extension Council; for the County Assessor by the County Conference Board; for the E911 System by the Joint E911 Service Board; and for Emergency Management Services by the Cherokee County Emergency Management Commission.

CHEROKEE COUNTY
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2013

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
		(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
2010	July 1, 2009	-	\$167,893	\$167,893	0.00%	\$2,872,000	5.85%
2011	July 1, 2009	-	\$167,893	\$167,893	0.00%	\$2,929,440	5.73%
2012	July 1, 2009	-	\$167,893	\$167,893	0.00%	\$2,988,029	5.61%
2013	July 1, 2012	-	\$211,481	\$211,481	0.00%	\$3,189,633	6.63%

See Note 10 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost and net OPEB obligation, and funded status and funding progress.

SUPPLEMENTARY INFORMATION

CHEROKEE COUNTY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2013

Schedule 1

	Special Revenue										
	Resource Enhancement and Protection	County Recorder's Records Management	County Rural Betterment	Forfeited Property	Urban Renewal Tax Increment	Conservation Education	Conservation Land Acquisition	Drug Court Grant	County Attorney Recovery Fees	County Case Management	Total
<u>ASSETS</u>											
Cash and pooled investments	\$ 792	\$ 3,828	\$ 68,602	\$ 83,886	\$ -	\$ 1,110	\$ 14,899	\$ 55,849	\$ 5,871	\$ -	\$ 234,837
Receivables:											
Accounts	-	-	2,500	-	-	-	-	200	-	-	2,700
Property tax:											
Succeeding year	-	-	-	-	188,477	-	-	-	-	-	188,477
Due from other governments	-	661	20,590	-	-	-	-	-	1,597	17,449	40,297
Total assets	<u>\$ 792</u>	<u>\$ 4,489</u>	<u>\$ 91,692</u>	<u>\$ 83,886</u>	<u>\$ 188,477</u>	<u>\$ 1,110</u>	<u>\$ 14,899</u>	<u>\$ 56,049</u>	<u>\$ 7,468</u>	<u>\$ 17,449</u>	<u>\$ 466,311</u>
<u>LIABILITIES AND FUND BALANCES</u>											
Liabilities:											
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,644	\$ -	\$ 34	\$ 1,678
Due to other governments	-	-	-	-	-	-	-	20	-	-	20
Deferred revenue:											
Succeeding year property tax	-	-	-	-	188,477	-	-	-	-	-	188,477
Total liabilities	-	-	-	-	188,477	-	-	1,664	-	34	190,175
Fund balances:											
Restricted	792	4,489	91,692	83,886	-	1,110	14,899	54,385	7,468	17,415	276,136
Total liabilities and fund balances	<u>\$ 792</u>	<u>\$ 4,489</u>	<u>\$ 91,692</u>	<u>\$ 83,886</u>	<u>\$ 188,477</u>	<u>\$ 1,110</u>	<u>\$ 14,899</u>	<u>\$ 56,049</u>	<u>\$ 7,468</u>	<u>\$ 17,449</u>	<u>\$ 466,311</u>

See accompanying independent auditor's report.

CHEROKEE COUNTY
COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

Schedule 2

	Special Revenue										Total
	Resource Enhancement and Protection	County Recorder's Records Management	County Rural Betterment	Forfeited Property	Urban Renewal Tax Increment	Conservation Education	Conservation Land Acquisition	Drug Court Grant	County Attorney Recovery Fees	County Case Management	
Revenues:											
Property and other County tax	\$ -	\$ -	\$ 134,165	\$ -	\$ 167,519	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 301,684
Intergovernmental	9,982	-	-	-	-	-	-	35,110	-	17,449	62,541
Charges for service	-	3,150	-	-	-	-	15,000	-	-	-	18,150
Use of money and property	3	8	-	-	-	-	-	-	-	-	11
Miscellaneous	-	-	2,500	13,122	-	2,624	-	-	7,468	-	25,714
Total revenues	9,985	3,158	136,665	13,122	167,519	2,624	15,000	35,110	7,468	17,449	408,100
Expenditures:											
Operating:											
Public safety and legal services	-	-	-	11,391	-	-	-	25,637	-	-	37,028
Physical health and social services	-	-	3,000	-	-	-	-	-	-	-	3,000
Mental Health	-	-	-	-	-	-	-	-	-	34	34
County environment and education	11,258	-	-	-	-	2,200	14,028	-	-	-	27,486
Governmental services to residents	-	5,100	-	-	-	-	-	-	-	-	5,100
Administration	-	-	158,776	-	167,519	-	-	-	-	-	326,295
Total expenditures	11,258	5,100	161,776	11,391	167,519	2,200	14,028	25,637	-	34	398,943
Excess (deficiency) of revenues over expenditures	(1,273)	(1,942)	(25,111)	1,731	-	424	972	9,473	7,468	17,415	9,157
Fund balances beginning of year	2,065	6,431	116,803	82,155	-	686	13,927	44,912	-	-	266,979
Fund balances end of year	\$ 792	\$ 4,489	\$ 91,692	\$ 83,886	\$ -	\$ 1,110	\$ 14,899	\$ 54,385	\$ 7,468	\$ 17,415	\$ 276,136

See accompanying independent auditor's report.

CHEROKEE COUNTY
COMBINING SCHEDULE OF FIDUCIARY ASSETS
AND LIABILITIES – AGENCY FUNDS
JUNE 30, 2013

Schedule 3

	<u>County Offices</u>	<u>Agricultural Extension</u>	<u>County Assessor</u>	<u>Schools</u>	<u>Community Colleges</u>	<u>Corporations</u>	<u>Townships</u>	<u>Auto License and Use Tax</u>	<u>Other</u>	<u>Total</u>
<u>ASSETS</u>										
Cash and pooled investments:										
County Treasurer	\$ -	\$ 2,239	\$ 591,648	\$ 98,743	\$ 5,672	\$ 33,049	\$ 3,357	\$ 297,290	\$ 94,862	\$ 1,126,860
Other County officials	72,254	-	-	-	-	-	-	-	-	72,254
Receivables:										
Property tax:										
Delinquent	-	170	480	9,338	535	7,995	70	-	2	18,590
Succeeding year	-	169,981	481,320	8,818,960	526,303	3,178,463	310,728	-	2,353	13,488,108
Accounts	5,264	-	-	-	-	-	-	-	406	5,670
Due from other governments	-	-	-	-	-	-	-	-	50,915	50,915
Special assessments	-	-	-	-	-	-	-	-	379,250	379,250
Total assets	<u>\$ 77,518</u>	<u>\$ 172,390</u>	<u>\$1,073,448</u>	<u>\$ 8,927,041</u>	<u>\$ 532,510</u>	<u>\$ 3,219,507</u>	<u>\$ 314,155</u>	<u>\$ 297,290</u>	<u>\$527,788</u>	<u>\$15,141,647</u>
<u>LIABILITIES</u>										
Accounts payable	\$ -	\$ -	\$ 193	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,910	\$ 2,103
Trusts payable	15,974	-	-	-	-	-	-	-	-	15,974
Due to other governments	61,544	172,390	1,073,255	8,927,041	532,510	3,219,507	314,155	297,290	525,878	15,123,570
Total liabilities	<u>\$ 77,518</u>	<u>\$ 172,390</u>	<u>\$1,073,448</u>	<u>\$ 8,927,041</u>	<u>\$ 532,510</u>	<u>\$ 3,219,507</u>	<u>\$ 314,155</u>	<u>\$ 297,290</u>	<u>\$527,788</u>	<u>\$15,141,647</u>

See accompanying independent auditor's report.

CHEROKEE COUNTY
COMBINING SCHEDULE OF CHANGES FIDUCIARY ASSETS
AND LIABILITIES – AGENCY FUNDS
YEAR ENDED JUNE 30, 2013

Schedule 4

	<u>County Offices</u>	<u>Agricultural Extension</u>	<u>County Assessor</u>	<u>Schools</u>	<u>Community Colleges</u>	<u>Corporations</u>	<u>Townships</u>	<u>Auto License and Use Tax</u>	<u>Other</u>	<u>Total</u>
<u>ASSETS AND LIABILITIES</u>										
Balances beginning of year	\$ 52,686	\$ 198,990	\$ 815,365	\$ 8,735,540	\$ 504,982	\$ 3,289,416	\$ 288,392	\$ 304,304	\$ 662,590	\$ 14,852,265
Additions:										
Property and other County tax	-	171,068	483,948	8,830,129	527,861	3,060,567	317,256	-	8,419	13,399,248
E911 surcharge	-	-	-	-	-	-	-	-	167,683	167,683
State tax credits	-	9,319	21,806	409,493	23,674	176,089	12,419	-	60	652,860
Office fees and collections	536,348	-	119	-	-	-	-	-	33,172	569,639
Auto licenses, use tax, and postage	-	-	-	-	-	-	-	4,101,382	-	4,101,382
Trusts	-	-	-	-	-	-	-	-	68,579	68,579
Miscellaneous	-	-	-	-	-	-	-	-	41,789	41,789
Total additions	<u>536,348</u>	<u>180,387</u>	<u>505,873</u>	<u>9,239,622</u>	<u>551,535</u>	<u>3,236,656</u>	<u>329,675</u>	<u>4,101,382</u>	<u>319,702</u>	<u>19,001,180</u>
Deductions:										
Agency remittances:										
To other governments	511,516	206,987	247,790	9,048,121	524,007	3,306,565	303,912	4,108,396	420,484	18,677,778
Trusts paid out	-	-	-	-	-	-	-	-	34,020	34,020
Total deductions	<u>511,516</u>	<u>206,987</u>	<u>247,790</u>	<u>9,048,121</u>	<u>524,007</u>	<u>3,306,565</u>	<u>303,912</u>	<u>4,108,396</u>	<u>454,504</u>	<u>18,711,798</u>
Balances end of year	<u>\$ 77,518</u>	<u>\$ 172,390</u>	<u>\$ 1,073,448</u>	<u>\$ 8,927,041</u>	<u>\$ 532,510</u>	<u>\$ 3,219,507</u>	<u>\$ 314,155</u>	<u>\$ 297,290</u>	<u>\$ 527,788</u>	<u>\$ 15,141,647</u>

See accompanying independent auditor's report.

CHEROKEE COUNTY
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY
FUNCTION – ALL GOVERNMENTAL FUNDS
FOR THE LAST TEN YEARS

Schedule 5

Modified Accrual Basis

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues:										
Property and other County tax	\$ 5,392,024	\$ 5,617,625	\$ 5,184,468	\$ 5,135,682	\$4,827,438	\$4,446,332	\$4,030,004	\$ 3,663,265	\$ 3,309,962	\$ 3,545,524
Interest and penalty on property tax	24,408	30,529	29,060	29,444	31,361	33,491	28,115	26,574	28,397	35,093
Intergovernmental	3,800,183	4,025,531	4,211,620	4,417,494	4,086,764	3,891,160	4,901,523	4,892,279	4,459,666	4,232,454
Licenses and permits	78,165	104,926	66,829	63,527	118,817	71,445	62,677	48,679	108,040	103,453
Charges for service	344,155	331,022	275,541	297,437	256,256	309,839	278,784	304,764	335,183	321,542
Use of money and property	64,582	77,019	93,411	111,633	148,048	394,117	253,578	183,677	130,554	123,060
Miscellaneous	263,958	155,630	155,253	124,975	79,839	56,231	56,269	223,054	135,606	59,516
Total	<u>\$ 9,967,475</u>	<u>\$10,342,282</u>	<u>\$10,016,182</u>	<u>\$10,180,192</u>	<u>\$9,548,523</u>	<u>\$9,202,615</u>	<u>\$9,610,950</u>	<u>\$ 9,342,292</u>	<u>\$ 8,507,408</u>	<u>\$ 8,420,642</u>
Expenditures:										
Operating:										
Public safety and legal services	\$ 1,906,297	\$ 1,635,097	\$ 1,626,862	\$ 1,534,816	\$1,393,237	\$1,355,121	\$1,334,472	\$ 1,454,137	\$ 1,454,196	\$ 1,370,125
Physical health and social services	294,137	271,496	319,837	337,161	308,147	342,797	872,551	718,458	707,775	663,044
Mental health	593,479	1,461,138	1,188,984	1,192,857	1,253,326	1,451,519	1,239,044	1,227,280	1,058,419	942,271
County environment and education	1,170,097	751,928	664,222	604,057	545,212	771,436	510,401	447,528	477,898	454,172
Roads and transportation	3,462,004	3,613,525	3,455,983	4,013,072	3,163,632	2,908,855	3,102,927	3,008,202	2,695,879	2,764,505
Governmental services to residents	532,873	400,032	300,111	278,717	349,214	328,342	320,000	408,544	278,675	250,100
Administration	1,436,573	1,425,471	1,514,140	1,222,161	1,207,259	1,055,096	986,367	881,385	964,982	911,033
Capital projects	514,486	494,413	133,608	1,272,699	464,266	995,770	839,872	1,132,415	1,474,330	2,656,062
Total	<u>\$ 9,909,946</u>	<u>\$10,053,100</u>	<u>\$ 9,203,747</u>	<u>\$10,455,540</u>	<u>\$8,684,293</u>	<u>\$9,208,936</u>	<u>\$9,205,634</u>	<u>\$ 9,277,949</u>	<u>\$ 9,112,154</u>	<u>\$10,011,312</u>

See accompanying independent auditor's report.

HUNZELMAN, PUTZIER & Co., PLC

CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
JASON K. RAVELING
TAMMY M. CARLSON, C.P.A.
RICHARD R. MOORE, C.P.A. (RETIRED)
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W. J. HUNZELMAN, C.P.A. 1921-1997

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Officials of Cherokee County:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cherokee County, Iowa, as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 24, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cherokee County's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cherokee County's internal control. Accordingly, we do not express an opinion on the effectiveness of Cherokee County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the County's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings as items I-(A-D)-13 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-E-13 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cherokee County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain instances of noncompliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2013, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Cherokee County's Responses to Findings

Cherokee County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Cherokee County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hungelman, Putzyier & Co., PLC

September 24, 2013

CHEROKEE COUNTY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-13 Segregation of Duties - During our review of internal control, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the County's financial statements. One individual within both the County Sheriff's office and County Recorder's office has custody of receipts and performs all record-keeping and reconciling functions for that office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, each official should review the operating procedures of their office to obtain the maximum internal control possible under the circumstances. The official should utilize current personnel to provide additional control through review of financial transactions, reconciliations, and reports. Such reviews should be performed by independent persons to the extent possible, and should be evidenced by initials or signature of the reviewer and the date of the review. Following are controls which should be implemented whenever possible:

1. All incoming mail should be opened by an employee who is not authorized to make entries to the accounting records. This employee should prepare a listing of cash and checks received. The mail should then be forwarded to the accounting personnel for processing. Later, the same listing should be compared to the cash receipt records.
2. Bank accounts should be reconciled promptly at the end of each month by an individual who does not sign checks, handle, or record cash.
3. Checks or warrants should be signed by an individual who does not otherwise participate in the preparation of the checks or warrants. Prior to signing, the checks or warrants and the supporting documentation should be reviewed for propriety. After signing, the checks or warrants should be mailed without allowing them to return to individuals who prepare the checks or warrants or who approve vouchers for payment.

Response – County Sheriff – The Sheriff's Office does have two individuals that have the responsibility of receipting and record keeping, however only one of the individuals does do the reconciling functions. The suggested segregation of duties is difficult with limited staff. The employees in the office for the sheriff do open the mail and forward it to the appropriate staff. The bank accounts are reconciled and balanced promptly at the end of each month. In the future this account will be reviewed for accuracy and a signature will be provided by the person doing the review. The majority of the checks that are written are for garnishments. All checks are written thru the computer program called Shield. A check is written from funds that are received from employers/banks. The funds that are received are receipted into the Shield program. The check is written to the Clerk of Court of the appropriate county. There is computer documentation for all checks that are written. This documentation is returned to the Clerk of Court as well.

Response – County Recorder – Incoming mail, bank reconciliation and reports will be administered by the County Recorder. The check signing, daily fee reporting and report verification will be overseen by the Deputy Recorder.

Conclusion – Responses accepted.

CHEROKEE COUNTY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013

Part I: Findings Related to the Financial Statements: - (Continued)

INTERNAL CONTROL DEFICIENCIES: - (Continued)

I-B-13 Financial Reporting - We noted that while management is capable of preparing accurate financial statements that provide information sufficient to make management decisions, reporting financial data reliably in accordance with U.S. generally accepted accounting principles (GAAP) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation - Obtaining additional GAAP knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable GAAP financial statements.

Response - Conducting business within a small county with limited staffing results in the need to employ the services of a private professional CPA business to ensure that all financial reporting is completed per state regulations. A management level employee has been assigned to oversee, review, and approve financial statements and related notes.

Conclusion - Response accepted.

I-C-13 Inaccurate Payments - Disbursements should be only for goods and services authorized and received. During the year, the Secondary Roads department presented invoices to the Auditor's office for payment and, after payment, it was determined that the invoices were inaccurate as received from the vendor. Proper verification of invoices was not done by county personnel, and the county paid for goods that were not authorized or received.

Recommendation - Only authorized personnel should order goods. When the department receives a vendor invoice, these same personnel should verify that the goods were received and were not previously included on a paid invoice. Only upon this verification should the County Engineer approve the invoices and submit them to the Auditor's office for payment.

Response - Engineer is aware that some duplicate and inaccurate invoices have been sent to the courthouse to be paid. We are now implementing additional checks and balances. Both Larry and Dave will sign off on the invoices. Parts invoices will be verified by those who ordered the parts, normally Steve and or Kenny. We will also be matching up invoices to the statements.

Conclusion - Response accepted.

I-D-13 County Extension Disbursements - Disbursements should be only for goods and services authorized and received. At fiscal year end, the County Extension office wrote checks for goods and services that were not yet received. These checks were held by the office until the goods and services were received in the following fiscal year. As a result, these transactions were not recorded in the correct year.

Recommendation - The County Extension office should not write and hold checks. The office should not write checks until the goods or services have been received.

Response - The Cherokee County Extension Agricultural District will review their fiscal procedures and will make sure that payments for goods and services received are transacted in the correct fiscal year.

Conclusion - Response accepted.

CHEROKEE COUNTY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013

Part I: Findings Related to the Financial Statements: - (Continued)

INTERNAL CONTROL DEFICIENCIES: - (Continued)

I-E-13 Vacation Carryover – Two secondary road employees had unused vacation time in excess of established policies as of June 30, 2013. Although the County's policy allows the carryover of vacation with department head approval, this amount results in a current liability which may become a substantial payment at a future date.

Recommendation – To avoid a possible substantial payment in the future, the Board should consider eliminating some of this carryover through payments or paid time off.

Response – The board will remind all departments that any exceptions to the Cherokee County Personnel Policy need to have board approval.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-13 Certified Budget - Disbursements during the year ended June 30, 2013, did not exceed the amounts budgeted.

II-B-13 Questionable Expenditures – Certain expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
HyVee	Retirement cake	\$ 105
Chronicle Times	Retirement celebration ad	\$ 134

According to the opinion, it is possible for certain expenditures to meet the test of serving a public purpose under certain circumstances, although such items will be subject to close scrutiny.

Also, the HyVee expenditure was made from the County Recorder's Records Management fund. This does not appear to be a proper use of these fees according to Chapter 331.604(2)(b) of the Code of Iowa.

Recommendation – The Board of Supervisors should scrutinize and document the public purpose served by expenditures before authorizing payment.

Response – Recorder – Review and acknowledgement of Chapter 331.604(2)(b) was accepted. Claims of this nature will be directed to the General Fund.

Response – Board – The Board of Supervisors will review all claims to assure they serve a public purpose.

Conclusion – Responses accepted.

II-C-13 Travel Expense - No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

CHEROKEE COUNTY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013

Part II: Other Findings Related to Required Statutory Reporting: - (Continued)

II-D-13 Business Transactions - Business transactions between the County and County officials or employees are detailed as follows:

<u>Name, Title, and Business Connections</u>	<u>Transaction Description</u>	<u>Amount</u>
Sara Lucas, Auditor's office, Father-in-law owns Modern Heating and Cooling	Repairs	\$ 15,319
Sara Lucas, Auditor's office, parents own Lundell Construction Co.	Repairs	\$ 27,039
Charles Baumann, Secondary Roads employee, Son Tucker Baumann, owns Baumann Mowing	Mowing	\$ 180
Jeff Holmes, Secondary Roads employee, Son Tim Holmes, owns Holmes Mowing	Mowing	\$ 180
Rose Beasley, Sheriff's office employee, Brother Randy Reeves, owns Champion Electric, Inc.	Repairs	\$ 16,495
James Egger, Secondary Roads employee	Equipment	\$ 1,500
Randy Walker, Secondary Roads employee	Easement	\$ 179
Larry Walker, Secondary Roads employee	Easement	\$ 179

CHEROKEE COUNTY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013

Part II: Other Findings Related to Required Statutory Reporting: - (Continued)

II-D-13 Business Transactions – (Continued)

In accordance with Chapter 331.342(2)(j) of the Code of Iowa, the transactions with Tucker Baumann, Tim Holmes, James Egger, Randy Walker, and Larry Walker do not appear to be conflicts of interest since total transactions were \$1,500 or less during the fiscal year.

In accordance with Chapter 331.342(2)(c) of the Code of Iowa, \$ 10,835 of the transactions with Modern Heating and Cooling do not appear to be conflicts of interest since they were part of a competitive bid process.

The other transactions may represent a conflict of interest.

Recommendation - The County should review those transactions closely and may want to consult their attorney to determine that they are in compliance with the Code of Iowa.

County Attorney Response – Sara Lucas' father-in-law owns Modern Heating and Cooling. During the 2012-13 fiscal year, Modern was paid an amount of approximately \$15,319.00. A large percentage of that amount was part of a competitive bidding process and therefore exempt under Iowa Code 331.341. Modern Heating and Cooling has had a long history of providing goods and services to the county prior to there being a potential conflict with the hire of Sara Lucas. Many of the counties various departments contract with local business entities for goods and services that don't meet the need for a public bidding process and are within their annual budget. It is my understanding that Sara is not involved in the procuring of any contracts between various departments and with Modern Heating and Cooling. Further, it is my understanding that neither Sara nor her spouse has a financial interest in the company. The company as stated is owned by the employee's father-in-law. It is my belief that contemporary conflict analysis requires more than mere blood familial links to create a conflict. It would require an actual financial benefit or favorable treatment of the relatives. That does not appear to be the case in this instance. If that should change, however, then there could be a conflict that would potentially void any contract with this company.

Sara Lucas's parents own Lundell Construction Co. During the 2012-13 fiscal year, an amount of approximately \$27,039.00 was paid to Lundell Construction Co. Most of this amount is due to various projects with the Roads or Engineering Department. It is unclear at this time if any of these projects are part of State or Federal Funding or part of a subcontracting amount for said projects. As of this date, I have not received clarification from the Engineer's office to make confirmation of this. Much like Modern Heating and Cooling, Lundell has had a long history of providing goods and services to the county prior to there being a potential conflict with the hire of Sara Lucas. Much like Modern Heating and Cooling it is my understanding that Sara is not involved in the procuring of contracts with Lundell Construction Co. nor does she have any financial interest in the company. Therefore, it is the undersigned's position that there is not a conflict of interest at this time.

Rose Beasley's brother owns Champion Electric, Inc. During the 2012-13 fiscal year, an amount of approximately \$16,495.42 was paid to Champion Electric, Inc. Of that amount a large percentage was for actual electrical supplies and not services and labor. Champion Electric, Inc. has also had a long history of providing goods and services to the county. As in the cases above it is my understanding that Rose is not involved in the procuring of contracts with Champion Electric, Inc. nor does she have any financial interest in the company. Therefore, it is the undersigned's position that there is not a conflict of interest in this case.

Conclusion – Response accepted.

CHEROKEE COUNTY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013

Part II: Other Findings Related to Required Statutory Reporting: - (Continued)

- II-E-13 Bond Coverage - Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- II-F-13 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-G-13 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County's investment policy were noted.
- II-H-13 Resource Enhancement and Protection Certification - The County dedicated property tax revenue to conservation purposes sufficient to meet the requirements of Chapter 455 A.19(1)(b) of the Code of Iowa in order to receive additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).
- II-I-13 County Extension Office - The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an Extension Council separate and distinct from County operations and, consequently, is not included in Exhibits A or B. Disbursements during the year ended June 30, 2013, did not exceed the amount budgeted.